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Tax Law May Change

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The Senate Finance Committee has tentatively proposed to phase out of the tax law a provision that allows federal workers to draw tax-free pensions for up to three years after they retire.

The committee, which is struggling to approve a tax reform package this week, has come up with a compromise that calls for ending the federal retirement provision by 1989.

The House has already approved a tax reform bill that in July would eliminate the tax break for 20 million American workers, including most civil servants, who contribute to their own pension plans.

Because contributions are taxed when they are deducted from salaries, taxes aren't withheld on pension payments until retirees recover all the money they contributed. The recovery period can last three years, but the average retiree gets back all contributions in 18 months. After that, the annuity is fully taxed.

The committee proposal to phase out the recovery period was developed during the weekend. The phase-out would begin for persons retiring after January 1988 (when 50 percent of the annuity would be subject to taxes), and fully implemented the following January.

Opponents say any change in the recovery rule could push thousands of U.S. workers into earlier retirement.

The Senate committee had tentatively voted against changing the provision, but then decided to "revisit" the issue when it was determined that $6 billion to $8 billion in revenue could be raised in the first three years by eliminating the recovery period.

If the committee approves a tax reform bill, the next stop is the full Senate. Then, Senate-House conferees would have to agree on a tax reform package to send to the White House. But many things could slow or derail the bill.

Sen. Paul Trible (R-Va.), for one, is cosponsoring a resolution that would keep any change in the recovery period provision out of a tax reform bill approved by the Senate.

Although the change wouldn't mean retirees would pay more taxes over a normal lifetime, it would mean an earlier and unexpected tax bite. The Federal Government Service Task Force, a civil service caucus, estimates that it would mean an early tax burden of $10,000 in the first three years for the typical new retiree and much more for top-paid civil servants.

Federal officials at the Internal Revenue Service, National Aeronautics and Space Administration, FBI and CIA have said many of their top executives are concerned about the proposed tax change, and that any mass exodus of employes could damage some of their operations.

Early Retirement Correction

If you think people aren't carefully watching the early retirement bill, just make a mistake—as I did Sunday—in reporting details of the proposal by Sens. William V. Roth Jr. (R-Del.) and Ted Stevens (R-Alaska).

They've proposed a special early out—between July 1 and Dec. 31—for employes at any age after 25 years' service; at 50 after 20 years' service; at 55 after 15 years' service or at age 57 after 5 years' service. Pensions would be reduced by 2 percent for each year under age 55. Sunday's column incorrectly said the penalty would apply to persons under 62.

The Office of Personnel Management has recommended that the White House support a modified version of the Roth-Stevens plan. OPM suggests that the early outs be limited to employes who have 25 years service or those aged 50 with 20 years' service.

It also wants agencies to have greater flexibility in filling key jobs vacated by retirement. The Roth-Stevens plan, in most instances, would bar agencies from refilling those jobs.